

Budget gets a thumbs up from infrastructure companies

Higher fund allocation towards roads, electrification, coupled with revised dispute mechanism system, augur well for the sector

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The Union Budget for FY17 has once again pushed the pedal on the infrastructure sector by increasing the overall spends on the road sector to ₹97,000 crore. The government's allocation to roads, to be sanctioned by the road transport and highways ministry, now stands significantly higher at ₹57,976 crore (₹47,107 crore in FY16). Overall, the budgetary allocation towards the key transport segments — roads and railways — stands at ₹2,18,000 crore, and if one adds the allocation towards the upgrade of state highways, the figure zooms to ₹2,21,246 crore.

Broadly, this year's Budget also affirms the government's focus on developing rural infrastructure such as roads, electrification and irrigation apart from boosting highways and state roads spends. This, in general, is viewed by the industry and experts as positive.

Welcoming the announcements, Satish Parakh, managing director, Ashoka Buildcon, said that the intention to come

out with a strong plan for the road sector is positive. Sandeep Upadhyay, MD & CEO, Centrum Infrastructure Advisory, added that it is evident that the government is continuing to focus on re-fuelling investments in the infrastructure sectors with high priority towards the transportation sector. "The allocations announced for the roads and railways sector is positive for EPC (engineering-procurement-construction) companies," he said. Teena Virmani of Kotak Securities said that the interest in EPC projects was higher compared to BOT projects in FY16 and predicted that the trend would continue in subsequent years.

Companies with clean balance sheets are expected to be the main beneficiaries of the increased allocation. While Virmani bet on the likes of Asoka Buildcon, IRB Infrastructure, Sadbhav Engineering and ILFS Transportation, Santosh Yellapu at Angel broking expected KNR Constructions and PNC Infratech to gain from this.

Along with roads, investment towards

rural electrification also saw increased focus. The government plans investments of ₹87,765 crore towards rural development (up 11 per cent year-on-year). Analysts felt that stocks such as Sadbhav Engineering, NCC and Simplex Infrastructure are well placed to benefit from this move.

Apart from irrigation, rural electrification has also seen higher allocation (₹8,500 crore). Arun Gopalan, vice-president (Research) at Systematix Shares, said the assurance of 100 per cent electrification of all villages by May 1, 2018, though ambitious, is a target definitely worth welcoming. There is a 29 per cent year-to-date jump in orders announced during FY16 in the power transmission and distribution segment and analysts expect this momentum to continue. Companies such as Kalptaru, KEC International, Skipper and Jyoti Structures are likely beneficiaries of the increased investments.

Sharan Bansal, director, Skipper Limited, said the increased expenditure in the farm and rural sectors will offer enhanced growth opportunities in the

power and water companies.

The government has also allocated ₹800 crore towards the development of green field port projects and this would help construction companies operating in the port segment. But given the quantum of investment, analysts do not expect big-ticket order flows here. Further, the developed ports are expected to be operated only by the government.

Apart from higher financial allocation, the government has also indicated a new method of settling disputes, which would help stranded public-private partnership (PPP) projects. Upadhyay said that allowing the renegotiation of the terms in the PPP contracts is a bold step with a positive intent. Parakh emphasised that this dispute mechanism will help constructors and will leave them with better finances.

Lastly, setting up of a credit rating agency for the infrastructure segment, experts believed, would help infrastructure companies access debt at a lower interest rate.



The overall spends on the road sector have been increased to ₹97,000 crore